Schroders

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Schroder ISF* Latin American Equity

Fund Managers: Tom Wilson and Pablo Riveroll | Fund update: October 2021

Performance overview

- Latin American equities, as measured by the MSCI EM Latin America 10-40 Index, registered a negative return in October and underperformed the MSCI Emerging Markets Index.
- Peru was the strongest index market, as political concerns moderated, followed by Argentina, with both producing double-digit returns in US dollar terms. Mexico recorded a slightly negative return but outperformed.
- By contrast, Brazil fell and was the weakest index market owing to concerns over the fiscal outlook, and as the central bank continued to tighten policy in response to accelerating inflation. Chile also lagged amid political uncertainty ahead of next month's presidential election, and concerns over a fourth pension withdrawal.
- The fund recorded a negative return and marginally underperformed the MSCI EM Latin America 10-40 Index.

Drivers of fund performance

- Country allocation had a neutral impact on relative returns. The underweight to Peru and the zero-weight to Colombia were the key detractors. These effects were largely offset by the overweights to Argentina and Mexico, and cash held in a falling market.
- Stock selection was slightly negative. Our positioning in Brazil, off-benchmark to digital payment processor **Pagseguro Digital** and overweight to e-commerce company **Magazine Luiza** detracted the most from relative returns. Our positioning in Argentina, off-benchmark to e-commerce company **Mercado Libre**, and Chile, overweight to department store **Falabella**, was also negative. By contrast, stock selection in Mexico was positive, in particular the off-benchmark holdings in **Banco Santander Mexico** and miner **Fresnillo**. In Peru, the off-benchmark position in **Intercorp Financial Services** added value.

Outlook

- Global liquidity growth continues to fall and the US Federal Reserve (Fed) has confirmed it will begin tapering in November. Persistent bottlenecks and energy price rises mean inflation is proving stickier than expected. Combined with fiscal drag, we could soon be moving into a stagflationary environment.
- Vaccine penetration across Latin America has improved markedly, which should support a return to normality and reduce the likelihood of Covid-driven restrictions or economic impediments, positively impacting growth.
- Policy uncertainty is ongoing across various regional markets, notably Peru under President Castillo. In Chile, this is related to constitutional renewal and this month's presidential election. Meanwhile, Brazil and Colombia hold key elections in 2022.

Calendar year performance (%)

Year	Fund	MSCI Emerging Markets Latin America 10/40 Index
2020	-5.0	-13.4
2019	20.5	17.5
2018	-5.7	-6.0
2017	25.6	23.0
2016	21.9	32.3

Source: Schroders, as at 31 December 2020. Net of fees, bid-bid, with net income reinvested, USD A Acc. Please see factsheet for other share classes. Index source: MSCI, as at 31 December 2020. Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Derivatives risk – efficient portfolio management and investment purposes: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.

IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macroeconomic environment, investment objectives may become more difficult to achieve.